



**U.S. Department of Justice
U.S. Attorney's Office
Western District of Texas**

Johnny Sutton, U.S. Attorney

FOR IMMEDIATE RELEASE

December 15, 2006

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HOUSTON AREA RADIOLOGIST SENTENCED TO FEDERAL PRISON ON TAX CHARGES

United States Attorney Johnny Sutton and the Department of Justice announced that Charles Thomas Clayton, MD, of The Woodlands, was sentenced to five years in federal prison for tax crimes relating to the claim that his domestically-earned income was not taxable.

In addition to the prison term, United States District Judge Sam Sparks ordered that Clayton pay a \$50,000 fine plus \$7,455.98 to cover certain costs associated with the prosecution of the case and be placed under supervised release for a period of one year after completing his prison term.

"The obligation to pay taxes is not negotiable," stated United States Attorney Johnny Sutton.

On August 29, 2006, a federal jury convicted Clayton of eight tax charges. The jury found that Clayton filed false amended tax returns for the calendar years 1997 and 1998, claiming a refund of over \$160,000 for those years. The jury also found that Clayton failed to file timely federal personal income tax returns for calendar years 1999-2004, despite receiving over \$1.3 million in gross income during those years.

Between at least 1996 and 2001, Clayton practiced radiology in Nacogdoches, Texas. He subsequently moved to The Woodlands, Texas, and currently practices in the Houston area. Clayton's defense at trial centered on the so-called "861 argument" – a claim that domestically-earned income is not taxable. Evidence at trial revealed that Clayton disregarded multiple written notices from the Internal Revenue Service informing him that his 861 argument was without merit. He had also been told the same thing by two Certified Public Accountants.

This case was investigated by special agents with the Houston field office of the Internal Revenue Service-Criminal Investigation and was prosecuted for the government by Assistant United States Attorney Elizabeth Cottingham and Trial Attorney Jen Ihlo from the U.S. Department of Justice Tax Division.

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